

Charter Township of Mount Morris Genesee County, Michigan

**Financial Report
with Supplemental Information
March 31, 2008**

Charter Township of Mount Morris

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenue, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds - Statement of Assets and Liabilities	20
Notes to Financial Statements	21-36
Required Supplemental Information	37
Budgetary Comparison Schedule - General Fund	38
Budgetary Comparison Schedule - Police and Fire Funds	39-40
Note to Required Supplemental Information	41
Other Supplemental Information	42
Nonmajor Governmental Funds:	
Combining Balance Sheet	43
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	44
Fiduciary Funds - Combining Statement of Assets and Liabilities	45

Independent Auditor's Report

To the Township Board
Charter Township of Mount Morris
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mount Morris (the "Township") as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Mount Morris' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mount Morris as of March 31, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Township Council
Charter Township of Mount Morris

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Mount Morris' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 4, 2008

Charter Township of Mount Morris

Management's Discussion and Analysis

Our discussion and analysis of the Township of Mount Morris' (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2008:

- Overall revenue sources increased from prior year by approximately 1.9 percent. Overall, increases in property taxes, charges for services, and other revenue were partially offset by the decreases in the revenue from operating grants and contributions and state revenue sharing. The decrease in state revenue sharing was attributable to the reductions in spending at the state level.
- To combat the continuing decrease key in revenue sources, the Township closely monitored its spending this year; as a result, total expenditures increased only 0.2 percent even with large increases in pension costs and health care.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to prior years:

	2006	2007	2008	Change	Percent Change
Assets					
Current assets	\$ 3,940,094	\$ 4,054,321	\$ 4,255,830	\$ 201,509	5.0
Noncurrent assets	<u>3,587,192</u>	<u>3,328,522</u>	<u>3,154,436</u>	<u>(174,086)</u>	(5.2)
Total assets	7,527,286	7,382,843	7,410,266	27,423	0.4
Liabilities					
Current liabilities	606,128	609,735	535,267	(74,468)	(12.2)
Long-term liabilities	<u>538,493</u>	<u>327,065</u>	<u>238,022</u>	<u>(89,043)</u>	(27.2)
Total liabilities	<u>1,144,621</u>	<u>936,800</u>	<u>773,289</u>	<u>(163,511)</u>	(17.5)
Net Assets					
Invested in capital assets -					
Net of related debt	3,208,447	3,077,016	3,012,576	(64,440)	(2.1)
Restricted	181,225	198,655	190,231	(8,424)	(4.2)
Unrestricted	<u>2,992,993</u>	<u>3,170,372</u>	<u>3,434,170</u>	<u>263,798</u>	8.3
Total net assets	<u>\$ 6,382,665</u>	<u>\$ 6,446,043</u>	<u>\$ 6,636,977</u>	<u>\$ 190,934</u>	3.0

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

	2006	2007	2008	Change	Percent Change
Revenue					
Program revenue:					
Charges for services	\$ 919,291	\$ 842,002	\$ 961,241	\$ 119,239	14.2
Operating grants and contributions	121,547	269,760	65,571	(204,189)	(75.7)
General revenue:					
Property taxes	3,454,611	3,508,977	3,777,279	268,302	7.6
State-shared revenue	2,343,928	2,310,465	2,270,484	(39,981)	(1.7)
Investment earnings	54,146	83,979	89,963	5,984	7.1
Franchise fees	208,069	210,611	214,578	3,967	1.9
Other revenue (loss)	(52,382)	29,121	17,031	(12,090)	(41.5)
Total revenue	7,049,210	7,254,915	7,396,147	141,232	1.9
Program Expenses					
General government	1,824,897	1,815,901	1,770,429	(45,472)	(2.5)
Police and fire	4,526,778	4,486,100	4,562,400	76,300	1.7
Building inspection	250,679	259,756	264,615	4,859	1.9
Public services	425,492	530,130	512,005	(18,125)	(3.4)
Community assistance	14,277	10,331	-	(10,331)	(100.0)
Planning and zoning	15,179	16,324	10,580	(5,744)	(35.2)
Senior activities	66,404	69,168	81,165	11,997	17.3
Interest on long-term debt	5,740	3,827	4,019	192	5.0
Total program expenses	7,129,446	7,191,537	7,205,213	13,676	0.2
Change in Net Assets	\$ (80,236)	\$ 63,378	\$ 190,934	\$ 127,556	201.3

The governmental net assets increased 3.0 percent from a year ago - increasing from approximately \$6,446,000 to \$6,637,000. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$263,800. This represents an increase of approximately 8.3 percent. The current level of unrestricted net assets for our governmental activities stands at approximately \$3,434,000, or about 48 percent of expenditures. The net capital asset decrease was slightly offset by principal debt payments lowering the amount of outstanding liabilities; as a result, the net assets invested in capital assets (net of related debt) decreased by approximately \$64,000.

The increase in total net assets was mainly due to the combined increase in property tax revenues. This revenue increase, combined with the control on spending increases, led to the overall increase in net assets of approximately \$191,000. The operating grant and contribution decrease was attributable to the Community Development Block Grant program grant period ending April 30, 2007. The new grant period begins May 1, 2008. Overall, the expenses were contained to only a 0.2 percent increase, despite continued pressure on fringe benefit costs.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund and the Refuse Collection Fund. System revenues are primarily from fees paid by customers based on use. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior years:

	2006	2007	2008	Change	Percent Change
Assets					
Current assets	\$ 7,092,924	\$ 6,599,825	\$ 6,550,668	\$ (49,157)	(0.7)
Noncurrent assets	<u>15,737,936</u>	<u>15,407,819</u>	<u>15,077,702</u>	<u>(330,117)</u>	(2.1)
Total assets	22,830,860	22,007,644	21,628,370	(379,274)	(1.7)
Liabilities					
Current liabilities	1,536,813	1,233,814	1,232,818	(996)	(0.1)
Long-term liabilities	<u>3,638,666</u>	<u>3,335,000</u>	<u>3,025,000</u>	<u>(310,000)</u>	(9.3)
Total liabilities	<u>5,175,479</u>	<u>4,568,814</u>	<u>4,257,818</u>	<u>(310,996)</u>	(6.8)
Net Assets					
Invested in capital assets -					
Net of related debt	11,520,604	11,769,153	11,742,702	(26,451)	(0.2)
Restricted	1,039	1,039	1,039	-	-
Unrestricted (deficit)	<u>6,133,738</u>	<u>5,668,638</u>	<u>5,626,811</u>	<u>(41,827)</u>	(0.7)
Total net assets	<u>\$ 17,655,381</u>	<u>\$ 17,438,830</u>	<u>\$ 17,370,552</u>	<u>\$ (68,278)</u>	(0.4)
Charges for services	\$ 2,953,988	\$ 3,023,573	\$ 3,181,341	\$ 157,768	5.2
Operating expenses other than depreciation	(2,960,232)	(3,012,841)	(3,135,652)	(122,811)	4.1
Depreciation	<u>(328,216)</u>	<u>(330,117)</u>	<u>(330,117)</u>	<u>-</u>	-
Operating loss	(334,460)	(319,385)	(284,428)	34,957	(10.9)
Interest income	203,049	233,167	314,743	81,576	35.0
Interest expense	(228,995)	(168,083)	(191,583)	(23,500)	14.0
Capital contributions	<u>144,925</u>	<u>37,750</u>	<u>92,990</u>	<u>55,240</u>	146.3
Change in Net Assets	<u>\$ (215,481)</u>	<u>\$ (216,551)</u>	<u>\$ (68,278)</u>	<u>\$ 148,273</u>	68.5

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

The business-type activities net assets decreased approximately 0.4 percent from a year ago - decreasing from approximately \$17,439,000 to \$17,371,000. Noncurrent assets did decrease by approximately \$330,000 mainly due to noncash depreciation expense exceeding the amount of capital outlay in the current year. However, this net capital asset decrease was offset by routine debt payments lowering the amount of outstanding liabilities at a greater rate. In sum, total assets decreased at a greater rate than the overall liability decrease mainly due to the business-type activities having to use up cash reserves in the current year to finance the loss in both the Water and Sewer Fund and the Refuse Fund.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by approximately \$42,000 for the business-type activities. This represents a decrease of approximately 0.7 percent. The current level of unrestricted net assets for our business-type activities stands at approximately \$5,627,000, which is a healthy level.

The decrease in net assets is part of a long-term trend in which the Township will ultimately need to increase its rates. The cost structure from the county has increased significantly over the last five years, and the Township is allowing its healthy financial position (the \$5,627,000 of unrestricted net assets discussed above) to absorb some portion of the necessary rate increase. This has been the main reason for the continued loss each year within the business-type funds. Over the next 5 to 10 years, the Township will attempt to balance its Enterprise Fund revenues with the associated expenses. During the current year, charges for services increased by approximately \$158,000. Overall expenses increased by about \$146,000 during the year. Increases in expenses were led by an approximate \$123,000 increase in operational expenses due to cost increases passed on by Genesee County.

The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2008 include the General Fund, the Police Fund, and the Fire Fund.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the Township's administrative governmental services including the supervisor, treasurer, and clerk's offices. The Police and Fire Funds record the majority of the revenues and expenditures related to the Township's public safety activities. The following table shows the total governmental fund activity, on a modified accrual basis:

	2006	2007	2008	Change	Percent Change
Revenue					
Property taxes	\$ 3,200,263	\$ 3,176,168	\$ 3,513,797	\$ 337,629	10.6
Charges for rubbish, tax collection, street lights, building permits & other	734,693	711,154	710,287	(867)	(0.1)
State-shared revenues	2,345,149	2,304,839	2,280,225	(24,614)	(1.1)
Federal, state, local grants	405,634	415,510	268,564	(146,946)	(35.4)
Cable franchise fees	208,069	210,611	214,578	3,967	1.9
Fines and forfeitures	117,921	107,257	121,939	14,682	13.7
Interest and rentals	82,119	108,925	112,402	3,477	3.2
Other	165,665	181,568	197,691	16,123	8.9
Total revenue	7,259,513	7,216,032	7,419,483	203,451	2.8
Expenditures					
Current:					
General government	1,799,202	1,880,102	1,821,821	(58,281)	(3.1)
Police and fire	4,519,653	4,333,989	4,468,986	134,997	3.1
Building inspections	250,367	259,756	264,615	4,859	1.9
Public services	299,566	358,881	336,985	(21,896)	(6.1)
Community assistance	653	4,856	4,667	(189)	(3.9)
Planning and zoning	15,179	16,324	10,580	(5,744)	(35.2)
Senior activities	57,944	60,708	72,705	11,997	19.8
Debt service	136,598	177,774	179,542	1,768	1.0
Total expenditures	7,079,162	7,092,390	7,159,901	67,511	1.0
Net Change in Fund Balances	180,351	123,642	259,582	135,940	109.9
Fund Balances - Beginning of year	3,205,952	3,386,304	3,509,946	123,642	3.7
Fund Balances - End of year	<u>\$ 3,386,303</u>	<u>\$ 3,509,946</u>	<u>\$ 3,769,528</u>	<u>\$ 259,582</u>	7.4

These two services are partially supported by special police and fire operation millages which provide approximately 38 percent of the operating expenses of the Police Fund and 83 percent of the operating expenses of the Fire Fund. Transfer of funds from the General Fund, grant income, fines and forfeitures, and other income provide the remaining funds to cover expenditures recorded in the Police and Fire Funds. Total operating expenditures of the Police Fund and Fire Fund in 2008 were approximately \$3.7 million and \$737,000, respectively. Combined, police and fire account for approximately 62 percent of total governmental expenses.

Charter Township of Mount Morris

Management's Discussion and Analysis (Continued)

Because the Township's fiscal year (March 31) is different than its tax year (December 1), the Township is careful to withhold 9 months of its recently collected property tax revenue, to be able to make it through to the next tax collection season without having to borrow. Below is an analysis of the unreserved fund balance of its governmental funds, when adjusted for this advance collection of property taxes. The Township generally strives to maintain an unreserved fund balance equal to 20% of expenditures, exclusive of the advance property tax collection:

	2006	2007	2008
Unreserved fund balance, as stated	\$ 3,255,497	\$ 3,364,085	\$ 3,636,392
75% of property taxes	(2,400,197)	(2,382,126)	(2,635,348)
Fund balance, adjusted for property taxes	<u>\$ 855,300</u>	<u>\$ 981,959</u>	<u>\$ 1,001,044</u>
Adjusted fund balance, as % of expense	12.1%	13.8%	14.0%

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was an increase in the transfer of funds to cover employee and retiree health benefits. The General Fund departments overall stayed below the amended budget, resulting in total revenue exceeding expenditures by approximately \$49,000.

Capital Asset and Debt Administration

At the end of 2008, the Township had approximately \$18,232,000 invested in a broad range of net capital assets, including buildings, police and fire equipment, and water and sewer lines. Investments in technology, protective equipment, and other public safety items were made throughout 2008 to improve the operations of the police and fire departments.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the close monitoring of expenses. However, any reduction in state revenue sharing would have a negative impact on this upcoming year's income. Because of this impact and the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Charter Township of Mount Morris

Statement of Net Assets March 31, 2008

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Assets			
Cash and investments (Note 3)	\$ 2,730,415	\$ 5,348,252	\$ 8,078,667
Receivables:			
Taxes	1,104,938	-	1,104,938
Customer	-	759,775	759,775
Due from other governmental units	456,835	-	456,835
Other	44,946	-	44,946
Internal balances	(243,837)	243,837	-
Inventories	6,312	-	6,312
Prepaid costs and other assets	156,221	197,765	353,986
Restricted assets (Note 4)	-	1,039	1,039
Capital assets - Net (Note 5):			
Nondepreciable	200,324	-	200,324
Depreciable	2,954,112	15,077,702	18,031,814
Total assets	7,410,266	21,628,370	29,038,636
Liabilities			
Accounts payable	46,980	382,262	429,242
Accrued and other liabilities	102,024	9,823	111,847
Due to other governmental units	168,485	-	168,485
Deferred revenue (Note 6)	-	530,733	530,733
Noncurrent liabilities (Note 8):			
Due within one year	217,778	310,000	527,778
Due in more than one year	238,022	3,025,000	3,263,022
Total liabilities	773,289	4,257,818	5,031,107
Net Assets			
Invested in capital assets - Net of related debt	3,012,576	11,742,702	14,755,278
Restricted:			
Housing commission	92,877	-	92,877
Building permits	23,051	-	23,051
Drug law enforcement	68,377	-	68,377
Hughes 20 debt service	5,926	-	5,926
Water and sewer construction	-	1,039	1,039
Unrestricted	3,434,170	5,626,811	9,060,981
Total net assets	\$ 6,636,977	\$ 17,370,552	\$ 24,007,529

Charter Township of Mount Morris

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Functions/Programs			Capital Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 1,770,429	\$ 405,111	\$ 5,618
Police and fire	4,562,400	450,905	59,953
Building inspections	264,615	65,933	-
Public services (roads, street lights, etc.)	512,005	39,292	-
Planning and zoning	10,580	-	-
Senior activities	81,165	-	-
Interest on long-term debt	4,019	-	-
Total governmental activities	7,205,213	961,241	65,571
Business-type activities:			
Water and sewer	2,857,446	2,385,241	-
Refuse	799,906	796,100	-
Total business-type activities	3,657,352	3,181,341	-
Total primary government	<u>\$ 10,862,565</u>	<u>\$ 4,142,582</u>	<u>\$ 65,571</u>
			<u>\$ 92,990</u>

General revenues:

Property taxes
State-shared revenues
Investment earnings
Cable franchise fees
Miscellaneous

Total general revenues and special item

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended March 31, 2008

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (1,359,700)	\$ -	\$ (1,359,700)
(4,051,542)	-	(4,051,542)
(198,682)	-	(198,682)
(472,713)	-	(472,713)
(10,580)	-	(10,580)
(81,165)	-	(81,165)
(4,019)	-	(4,019)
(6,178,401)	-	(6,178,401)
-	(379,215)	(379,215)
-	(3,806)	(3,806)
-	(383,021)	(383,021)
(6,178,401)	(383,021)	(6,561,422)
3,777,279	-	3,777,279
2,270,484	-	2,270,484
89,963	314,743	404,706
214,578	-	214,578
17,031	-	17,031
6,369,335	314,743	6,684,078
190,934	(68,278)	122,656
6,446,043	17,438,830	23,884,873
<u>\$ 6,636,977</u>	<u>\$ 17,370,552</u>	<u>\$ 24,007,529</u>

Charter Township of Mount Morris

Governmental Funds Balance Sheet March 31, 2008

	General Fund	Police Fund	Fire Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 2,288,660	\$ 178,715	\$ 56,932	\$ 206,108	\$ 2,730,415
Receivables:					
Property taxes	1,104,938	-	-	-	1,104,938
Other governmental units	306,738	-	-	-	306,738
Other	920	25,158	152	18,716	44,946
Prepaid costs and other assets	126,824	-	-	29,397	156,221
Due from other funds (Note 7)	25,625	219,797	112,751	3,204	361,377
Inventories	6,312	-	-	-	6,312
Total assets	<u>\$ 3,860,017</u>	<u>\$ 423,670</u>	<u>\$ 169,835</u>	<u>\$ 257,425</u>	<u>\$ 4,710,947</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 12,506	\$ 6,043	\$ 10,604	\$ 17,827	\$ 46,980
Accrued and other liabilities	22,363	77,130	(2,495)	5,026	102,024
Due to other governmental units	168,485	-	-	-	168,485
Due to other funds (Note 7)	579,589	-	-	25,625	605,214
Deferred revenue (Note 6)	-	-	-	18,716	18,716
Total liabilities	782,943	83,173	8,109	67,194	941,419
Fund Balances					
Reserved for:					
Prepaid insurance policies	126,824	-	-	1,050	127,874
Inventory	6,312	-	-	-	6,312
Unreserved, reported in:					
General Fund	2,943,938	-	-	-	2,943,938
Debt Service Fund	-	-	-	5,926	5,926
Special Revenue Funds	-	340,497	161,726	183,255	685,478
Total fund balances	<u>3,077,074</u>	<u>340,497</u>	<u>161,726</u>	<u>190,231</u>	<u>3,769,528</u>
Total liabilities and fund balances	<u>\$ 3,860,017</u>	<u>\$ 423,670</u>	<u>\$ 169,835</u>	<u>\$ 257,425</u>	<u>\$ 4,710,947</u>

Charter Township of Mount Morris

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets March 31, 2008

Fund Balance - Total Governmental Funds \$ 3,769,528

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds 3,154,436

State of Michigan receivable not collected within 60 days of year
end and is not available to pay for current year expenditures 150,097

Grant receivables are not expected to be collected within 60 days
of year end and are not available to pay for current year
expenditures 18,716

Long-term liabilities and accrued interest are not due and payable
in the current period and are not reported in the funds (455,800)

Net Assets - Governmental Activities \$ 6,636,977

Charter Township of Mount Morris

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2008

	General Fund	Police Fund	Fire Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 1,472,492	\$ 1,422,146	\$ 609,980	\$ 9,179	\$ 3,513,797
Licenses and permits	60,457	-	-	65,755	126,212
Federal grants	5,617	52,037	-	-	57,654
State-shared revenues and state grants	2,280,225	169,129	-	-	2,449,354
Local sources	26,750	-	15,031	-	41,781
Special assessment revenue	245,925	-	-	-	245,925
Charges for services	338,150	-	-	-	338,150
Cable franchise fees	214,578	-	-	-	214,578
Fines and forfeitures	-	121,939	-	-	121,939
Interest and rentals	109,773	-	-	2,629	112,402
Other	44,755	42,347	73,526	37,063	197,691
Total revenue	4,798,722	1,807,598	698,537	114,626	7,419,483
Transfers In (Note 7)	-	2,063,700	100,000	196,200	2,359,900
Total revenue and transfers in	4,798,722	3,871,298	798,537	310,826	9,779,383
Expenditures					
Current:					
General government	1,821,821	-	-	-	1,821,821
Police and fire	-	3,714,210	736,949	17,827	4,468,986
Building inspections	-	-	-	264,615	264,615
Public services (roads, street lights, etc.)	336,985	-	-	-	336,985
Community assistance (CDBG and housing)	-	-	-	4,667	4,667
Planning and zoning	10,580	-	-	-	10,580
Senior activities	72,705	-	-	-	72,705
Debt service	147,401	-	-	32,141	179,542
Total expenditures	2,389,492	3,714,210	736,949	319,250	7,159,901
Transfers Out (Note 7)	2,359,900	-	-	-	2,359,900
Total expenditures and transfers out	4,749,392	3,714,210	736,949	319,250	9,519,801
Net Change in Fund Balances	49,330	157,088	61,588	(8,424)	259,582
Fund Balances - Beginning of year	3,027,744	183,409	100,138	198,655	3,509,946
Fund Balances - End of year	<u>\$ 3,077,074</u>	<u>\$ 340,497</u>	<u>\$ 161,726</u>	<u>\$ 190,231</u>	<u>\$ 3,769,528</u>

Charter Township of Mount Morris

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended March 31, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 259,582

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	174,031
Depreciation	(313,389)

Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in sale of capital assets	(48,950)
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Payment of personal property tax utility multiplier liability was recorded in the statement of activities but was not recorded within the governmental funds	2,584
--	-------

Special assessment revenues are recorded in the statement of activities when the assessment is set; financial resources in the statement of activities were provided in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	(10,858)
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State-shared revenue reported in the statement of activities that provided financial resources in the statement of activities in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	(9,741)
--	---------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	123,868
---	---------

Change in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	13,807
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Change in Net Assets of Governmental Activities \$ 190,934

Charter Township of Mount Morris

Proprietary Funds Statement of Net Assets March 31, 2008

	Water and Sewer	Refuse Collection	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 4,866,354	\$ 481,898	\$ 5,348,252
Customer receivables	759,775	-	759,775
Due from other funds (Note 7)	66,488	177,349	243,837
Other assets	197,765	-	197,765
Total current assets	5,890,382	659,247	6,549,629
Noncurrent assets:			
Capital assets (Note 5)	15,077,702	-	15,077,702
Restricted assets - Held at Genesee County (Note 4)	1,039	-	1,039
Total noncurrent assets	15,078,741	-	15,078,741
Total assets	20,969,123	659,247	21,628,370
Liabilities			
Current liabilities:			
Accounts payable	382,262	-	382,262
Accrued and other liabilities	9,823	-	9,823
Current portion of long-term debt (Note 8)	310,000	-	310,000
Deferred revenue (Note 6)	-	530,733	530,733
Total current liabilities	702,085	530,733	1,232,818
Noncurrent liabilities - Long-term debt - Net of current portion (Note 8)	3,025,000	-	3,025,000
Total liabilities	3,727,085	530,733	4,257,818
Net Assets			
Investment in capital assets - Net of related debt	11,742,702	-	11,742,702
Restricted for water and sewer construction projects	1,039	-	1,039
Unrestricted	5,498,297	128,514	5,626,811
Total net assets	<u>\$ 17,242,038</u>	<u>\$ 128,514</u>	<u>\$ 17,370,552</u>

Charter Township of Mount Morris

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2008

	Water and Sewer	Refuse Collection	Total
Operating Revenue			
User charges	\$ 2,290,938	\$ 796,100	\$ 3,087,038
Interest and penalty charges	6,294	-	6,294
Other charges for services	88,009	-	88,009
	<hr/>	<hr/>	<hr/>
Total operating revenue	2,385,241	796,100	3,181,341
Operating Expenses			
Cost of water produced/purchased	1,040,007	-	1,040,007
Cost of sewage treatment	807,929	-	807,929
Refuse pickup contract	-	799,906	799,906
Operation and maintenance	213,769	-	213,769
Billing and administrative costs	274,041	-	274,041
Depreciation	330,117	-	330,117
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,665,863	799,906	3,465,769
Operating Loss	(280,622)	(3,806)	(284,428)
Nonoperating Revenue (Expense)			
Investment income	305,667	9,076	314,743
Interest expense	(191,583)	-	(191,583)
	<hr/>	<hr/>	<hr/>
Gain (Loss) - Before contributions	(166,538)	5,270	(161,268)
Capital Contributions - Tap-in fees	92,990	-	92,990
	<hr/>	<hr/>	<hr/>
Change in Net Assets	(73,548)	5,270	(68,278)
Net Assets - Beginning of year	17,315,586	123,244	17,438,830
	<hr/>	<hr/>	<hr/>
Net Assets - End of year	<u>\$ 17,242,038</u>	<u>\$ 128,514</u>	<u>\$ 17,370,552</u>

Charter Township of Mount Morris

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2008

	Water and Sewer	Refuse Collection	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,495,680	\$ 796,100	\$ 3,291,780
Payments to suppliers	(1,858,058)	(809,256)	(2,667,314)
Payments to employees	(507,653)	-	(507,653)
Net cash provided by (used in) operating activities	129,969	(13,156)	116,813
Cash Flows from Capital and Related Financing Activities			
Tap-in fees	92,990	-	92,990
Principal and interest paid on capital debt	(466,677)	-	(466,677)
Net cash used in capital and related financing activities	(373,687)	-	(373,687)
Cash Flows from Investing Activities			
Interest received on investments	233,691	9,077	242,768
Proceeds from sale of investments	1,488,198	-	1,488,198
Net cash provided by investing activities	1,721,889	9,077	1,730,966
Net Increase (Decrease) in Cash and Cash Equivalents	1,478,171	(4,079)	1,474,092
Cash and Cash Equivalents - Beginning of year	2,347,376	485,977	2,833,353
Cash and Cash Equivalents - End of year	\$ 3,825,547	\$ 481,898	\$ 4,307,445
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 4,866,354	\$ 481,898	\$ 5,348,252
Restricted investments	1,039	-	1,039
Less amounts classified as investments	(1,041,846)	-	(1,041,846)
Total cash and cash equivalents	\$ 3,825,547	\$ 481,898	\$ 4,307,445
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (280,622)	\$ (3,806)	\$ (284,428)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	330,117	-	330,117
Changes in assets and liabilities:			
Receivables	103,957	-	103,957
Due from other funds	(22,635)	(9,350)	(31,985)
Other assets	6,482	-	6,482
Accounts payable	(10,122)	-	(10,122)
Accrued and other liabilities	2,792	-	2,792
Net cash used in operating activities	\$ 129,969	\$ (13,156)	\$ 116,813

Noncash Capital and Related Financing Activities - There were no significant noncash investing, capital, or financing activities during the year ended March 31, 2008.

Charter Township of Mount Morris

Fiduciary Funds **Statement of Fiduciary Assets and Liabilities** **March 31, 2008**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 94,024
Receivables - Other	<u>26,859</u>
Total assets	<u>\$ 120,883</u>
Liabilities	
Accrued and other liabilities	\$ 75,351
Due to other governmental units	<u>45,532</u>
Total liabilities	<u>\$ 120,883</u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Mount Morris (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Mount Morris:

Reporting Entity

The Charter Township of Mount Morris is governed by an elected seven-member board of trustees. There are no component units that are required to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township (primary government). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or segment (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest are susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Police Fund - The Police Fund is where the Township accounts for the financial operations of the police department, including a special property tax millage, and federal and state grants that directly benefit and are solely designated for law enforcement activities.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Fire Fund - The Fire Fund is where the Township accounts for the financial operations of the fire department, including a special property tax millage, and federal grants that directly benefit and are solely designated for fire protection.

The Township reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

Refuse Collection Fund - The Refuse Collection Fund is used to account for the activities related to the Township's trash collection. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Township's policy is to first apply restricted resources.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue - Properties are assessed as of December 31 of each year. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township's 2007 tax is levied and collectible on December 1, 2007 and is recognized as revenue in the year ended March 31, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the Township totaled \$420 million; the detail of the property tax levy is as follows:

Purpose	Millage	Levy
General operating	3.5400	\$ 1,488,000
Police	3.4115	1,434,000
Fire	1.4619	614,000
Total property taxes		<u>\$ 3,536,000</u>

The delinquent real property taxes of the Township are purchased by Genesee County (the "County"). In approximately April or May, the County treasurer reimburses the local unit for delinquent real property taxes through the County revolving fund. If delinquent real taxes cannot be collected by the County, the local unit portion of the tax is invoiced or deducted from the monthly County settlement.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General, Fire, Police, Building, Drug, Housing, Hughes 20, and Refuse Funds is generally allocated to each fund using a weighted average.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets - Genesee County acts on behalf of the Township to issue bonds to finance water and sewer lines. Restricted assets represent the monies held by the County that are to be spent on the Township's behalf for water and sewer line construction, or for repayment of the related bonds.

Capital Assets - Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Infrastructure	20-75 years
Land improvements	20 years
Machinery and equipment	5-20 years
Vehicles	8 years

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or the employee is terminated).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The activity related to construction code fees is recorded in a separate fund, the Building Permit Fund.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated 10 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 with further restrictions that indicate the Township shall diversify the investments by security type and institution. The Township's policy indicates that no more than 50 percent of the total investment portfolio will be invested in a single security type or with a single financial institution, with the exception of U.S. Treasury securities and authorized investment pools. In addition, the Township's securities purchased will have a maximum maturity of no longer than two years and not more than 50 percent of any fund may be invested in commercial paper at any time.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the Township had \$5,392,125 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$600,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy would indicate to be in compliance with state law limits. This rating must be obtained by not less than two standard rating services. As of year end, the credit quality ratings of equity and debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating
Bank investment pool	\$ 3,207,592	Not rated

Note 4 - Restricted Assets

Restricted assets at March 31, 2008 consist of cash and cash equivalents held at the County. These assets are restricted for construction of the Francis/Webster Roads.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance April 1, 2007	Additions	Disposals	Balance March 31, 2008
Governmental Activities				
Capital assets not being depreciated - Land	\$ 200,324	\$ -	\$ -	\$ 200,324
Capital assets being depreciated:				
Buildings	3,574,157	-	-	3,574,157
Infrastructure	639,474	-	-	639,474
Land improvements	165,690	51,000	-	216,690
Machinery and equipment	454,580	24,114	-	478,694
Vehicles	2,103,043	113,139	(120,987)	2,095,195
Subtotal	6,936,944	188,253	(120,987)	7,004,210
Accumulated depreciation:				
Buildings	1,401,886	72,028	-	1,473,914
Infrastructure	463,932	26,775	-	490,707
Land improvements	112,464	9,456	-	121,920
Machinery and equipment	277,747	47,528	-	325,275
Vehicles	1,552,717	157,602	(72,037)	1,638,282
Subtotal	3,808,746	313,389	(72,037)	4,050,098
Net capital assets being depreciated	3,128,198	(125,136)	(48,950)	2,954,112
Net capital assets	<u>\$ 3,328,522</u>	<u>\$ (125,136)</u>	<u>\$ (48,950)</u>	<u>\$ 3,154,436</u>

A summary of business-type fixed assets at March 31, 2008 was as follows:

	Balance April 1, 2007	Additions	Disposals	Balance March 31, 2008
Business-type Activities				
Capital assets being depreciated:				
Sanitary sewer system	\$ 17,073,017	\$ -	\$ -	\$ 17,073,017
Water utility system	6,150,039	-	-	6,150,039
Office equipment	6,168	-	-	6,168
Subtotal	23,229,224	-	-	23,229,224
Accumulated depreciation:				
Sanitary sewer system	4,991,855	227,600	-	5,219,455
Water utility system	2,823,382	102,517	-	2,925,899
Office equipment	6,168	-	-	6,168
Subtotal	7,821,405	330,117	-	8,151,522
Net capital assets	<u>\$ 15,407,819</u>	<u>\$ (330,117)</u>	<u>\$ -</u>	<u>\$ 15,077,702</u>

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 5 - Capital Assets (Continued)

Depreciation was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 52,085
Public safety	225,225
Public works	27,619
Recreation and culture	<u>8,460</u>
Total governmental activities	<u>\$ 313,389</u>

Business-type activities:

Water utility	\$ 102,517
Sanitary sewer	<u>227,600</u>
Total business-type activities	<u>\$ 330,117</u>

Note 6 - Deferred Revenue

Statement of Net Assets - On the statement of net assets, the deferred revenue in the governmental activities represents resources that have been received but not yet earned.

Governmental Funds Balance Sheet - Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Land contract receivable	<u>\$ 18,716</u>	<u>\$ -</u>	<u>\$ 18,716</u>

In addition, the Refuse Collection Fund reports deferred revenue of \$530,733 related to refuse fees collected in advance of the period to which the service relates.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Other nonmajor governmental funds	\$ 25,625
Police Fund	General Fund	219,797
Fire Fund	General Fund	112,751
Other nonmajor governmental funds	General Fund	3,204
Sewer Fund	General Fund	66,488
Refuse Fund	General Fund	177,349
Total		<u>\$ 605,214</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Fire Fund	\$ 100,000
General Fund	Building Permits Fund	179,200
General Fund	Police Fund	2,063,700
General Fund	Hughes 20 Fund	17,000
Total		<u>\$ 2,359,900</u>

The transfers from the General Fund to the Police Fund, Fire Fund, Hughes 20 Debt Service Fund, and Building Permits Fund were to assist in paying salary expenses, debt, and other needed appropriations.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 8 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities							
County Contract Obligations:							
Hughes 20 Drainage District Bonds:							
Amount of issue - \$127,560	6.75%	\$25,512	\$ 51,024	\$ -	\$ (25,512)	\$ 25,512	\$ 25,512
Maturing through 2009							
Hughes 20 Drainage Township Share Bonds:							
Amount of issue - \$14,173	6.75%	\$2,835	5,668	-	(2,834)	2,834	2,834
Maturing through 2009							
General Obligations:							
Fire Truck #1 Bond:							
Amount of issue - \$386,940	5.00%	\$36,234-	121,450	-	(80,739)	40,711	40,711
Maturing through 2008		\$80,736					
Police Vehicle Capital Leases	6.59%						
Amount of issue - \$31,645		\$ 16,328	-	31,645	(15,317)	16,328	16,328
Maturing through 2009							
Special Assessment Obligation Bonds: (2)							
Project #433 Bond:							
Amount of issue - \$9,372	5.08%	\$2,343	2,343	-	(2,343)	-	-
Maturing through 2008							
Project #435 Bond:	5.08%						
Amount of issue - \$13,638		\$3,410	3,409	-	(3,409)	-	-
Maturing through 2008							
Project #436 Bond:	5.09%						
Amount of issue - \$14,938		\$2,988	5,974	-	(2,988)	2,986	2,986
Maturing through 2009							
Project #445 Bond:	6.09%						
Amount of issue - \$81,494		\$8,149	61,638	-	(8,149)	53,489	8,149
Maturing through 2015							
Other long-term obligations:							
Accumulated employee benefits (1)			310,331	-	(13,807)	296,524	121,258
Michigan Tax Tribunals			20,000	-	(2,584)	17,416	-
Total governmental activities			581,837	31,645	(157,682)	455,800	217,778

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Business-type Activities (3)							
Genessee County Sanitary Sewage System Bonds:							
2005 Refunding Bonds:							
Amount of issue - \$2,900,000	4.00%	\$15,000-	\$ 2,860,000	\$ -	\$ (25,000)	\$ 2,835,000	\$ 210,000
Maturing through 2019	4.25%	\$315,000		.			
1999 Sewer Extension Bonds:							
Amount of issue - \$3,800,000	4.95%	\$150,000-	175,000	-	(175,000)	-	-
Maturing through 2019	5.70%	\$300,000					
#2 Southeast Extension Bond:							
Amount of issue - \$14,664	4.00%	\$3,666	3,666	-	(3,666)	-	-
Maturing through 2008	4.45%						
Genessee County Sewage Disposal System Bonds -							
1996 Sewage Disposal Bonds:							
Amount of issue - \$900,000	0.05%	\$100,000-					
Maturing through 2012		\$150,000	600,000	-	(100,000)	500,000	100,000
Total business-type activities			3,638,666	-	(303,666)	3,335,000	310,000
Total business-type and governmental activities			\$ 4,220,503	\$ 31,645	\$ (461,348)	\$ 3,790,800	\$ 527,778

- (1) Accumulated employee benefits represent the estimated liability to be paid to governmental fund-type employees under the Township's sick and vacation pay policy. Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.
- (2) The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of improvements. Under Michigan law, the Township is secondarily liable for payment of these bonds.
- (3) The Township has pledged its full faith and credit as collateral for the water and sewer county contract obligations.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	96,520	1,707	98,227	310,000	141,720	451,720
2010	8,149	-	8,149	345,000	128,320	473,320
2011	8,149	-	8,149	355,000	113,270	468,270
2012	8,149	-	8,149	385,000	97,590	482,590
2013	8,149	-	8,149	245,000	80,455	325,455
2014-2018	12,744	-	12,744	1,380,000	243,258	1,623,258
2019	-	-	-	315,000	13,388	328,388
Total	<u>\$ 141,860</u>	<u>\$ 1,707</u>	<u>\$ 143,567</u>	<u>\$ 3,335,000</u>	<u>\$ 818,001</u>	<u>\$ 4,153,001</u>

In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool program for claims relating to workers' compensation, and in the Michigan Townships Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 10 - Defined Benefit Pension Plan

Plan Description

The Township participates in the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended March 31, 2008, the Township's annual pension cost of \$706,940 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007 and 2006, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 8.14 percent investment rate of return, (b) projected salary increases of 4.50 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) postretirement benefit increases of 2.50 percent annually. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The unfunded actuarial liability is being amortized as a level of percentage of payroll over a period of 30 years.

Charter Township of Mount Morris

Notes to Financial Statements March 31, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information

	Fiscal Year Ended March 31		
	2006	2007	2008
Annual pension costs (APC)	\$ 608,638	\$ 604,201	\$ 706,940
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Valuation as of December 31			
	2004	2005	2006
Actuarial value of assets	\$ 11,438,725	\$ 12,173,760	\$ 13,116,735
Actuarial accrued liability (AAL)	\$ 15,968,305	\$ 18,774,360	\$ 20,203,864
Unfunded AAL (UAAL)	\$ 4,529,580	\$ 6,600,600	\$ 7,087,129
Funded ratio	72%	65%	65%
Covered payroll	\$ 2,959,666	\$ 3,003,232	\$ 3,007,034
UAAL as a percent of covered payroll	153%	220%	236%

Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, 27 retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2007, the Township made payments for postemployment health benefit premiums of \$270,328. The Township obtains health care coverage through private insurers.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Required Supplemental Information

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,406,900	\$ 1,406,900	\$ 1,472,492	\$ 65,592
Licenses and permits	76,700	76,700	60,457	(16,243)
Federal grants	80,000	80,000	5,617	(74,383)
State-shared revenues and grants	2,360,000	2,285,000	2,280,225	(4,775)
Local sources	40,000	40,000	26,750	(13,250)
Special assessment revenue	255,000	255,000	245,925	(9,075)
Charges for services	296,000	296,000	338,150	42,150
Cable franchise fees	210,000	210,000	214,578	4,578
Interest and rentals	81,000	81,000	109,773	28,773
Other	34,000	34,000	44,755	10,755
Total revenues	4,839,600	4,764,600	4,798,722	34,122
Expenditures				
Current:				
General government	1,827,700	1,839,000	1,821,821	17,179
Public services (roads, street lights, etc.)	372,000	336,000	336,985	(985)
Community assistance (CDBG and housing)	5,000	5,000	-	5,000
Planning and zoning	16,700	16,700	10,580	6,120
Senior activities	60,000	60,000	72,705	(12,705)
Debt service	100,000	148,000	147,401	599
Transfers to other funds	2,458,200	2,359,900	2,359,900	-
Total expenditures	4,839,600	4,764,600	4,749,392	15,208
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,330</u>	<u>\$ 49,330</u>

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule Police Fund Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,327,000	\$ 1,327,000	\$ 1,422,146	\$ 95,146
Federal grants	19,400	19,400	52,037	32,637
State grants	110,000	110,000	169,129	59,129
Fines and forfeitures	133,000	133,000	121,939	(11,061)
Other	21,600	21,600	42,347	20,747
Transfer from other funds	<u>2,018,700</u>	<u>2,063,700</u>	<u>2,063,700</u>	<u>-</u>
Total revenues	3,629,700	3,674,700	3,871,298	196,598
Expenditures - Current - Public safety	<u>3,629,700</u>	<u>3,674,700</u>	<u>3,714,210</u>	<u>(39,510)</u>
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,088</u>	<u>\$ 157,088</u>

Charter Township of Mount Morris

Required Supplemental Information Budgetary Comparison Schedule Fire Fund Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 590,000	\$ 590,000	\$ 609,980	\$ 19,980
Local sources	25,000	25,000	15,031	(9,969)
Other	87,500	87,500	73,526	(13,974)
Transfer from other funds	<u>243,300</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total revenues	945,800	802,500	798,537	(3,963)
Expenditures - Current - Public safety	<u>945,800</u>	<u>802,500</u>	<u>736,949</u>	<u>65,551</u>
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,588</u>	<u>\$ 61,588</u>

Charter Township of Mount Morris

Note to Required Supplemental Information March 31, 2008

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The annual budget is prepared by the Township supervisor and adopted by the Township board. During the year, the budget was amended in a legally permissible manner.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The budget process is initiated in December. At that time, departments are given prior and current year budget information to review. The budget form includes areas for potential budget suggestions. Once each department completes the forms, they are resubmitted to the Township supervisor to review with each department head. The budget is submitted to the Township board in February by the Township supervisor. After a public hearing, the final budget is adopted by a Township board resolution no later than March 31.
2. The legislative budget is adopted by department and fund on an activity basis. Line item detail is provided as a general guideline. Throughout the year, the board receives requests to amend the activity budget. All amendments must be approved by a vote of the Township board.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Mount Morris incurred expenditures that were in excess of the amounts budgeted in the Police and General Fund, as follows;

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Police Fund - Public safety	\$3,674,700	\$3,714,210	\$ 39,510
General Fund – Senior activities	60,000	72,705	12,705

The unfavorable public safety expense in the Police Fund was mainly due to Police salaries exceeding budget due to unanticipated additional Police time needed.

The unfavorable senior activities expense in the General Fund was mainly due to additional activities offered in the current year.

Other Supplemental Information

Charter Township of Mount Morris

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2008

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Housing Commission	Building Permits	Drug Law Enforcement	Hughes 20 Debt Service	
Assets					
Cash and investments	\$ 91,827	\$ 28,077	\$ 86,204	\$ -	\$ 206,108
Receivables - Net	18,716	-	-	-	18,716
Prepaid costs and other assets	1,050	-	-	28,347	29,397
Due from other funds	-	-	-	3,204	3,204
Total assets	<u>\$ 111,593</u>	<u>\$ 28,077</u>	<u>\$ 86,204</u>	<u>\$ 31,551</u>	<u>\$ 257,425</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 17,827	\$ -	\$ 17,827
Accrued and other liabilities	-	5,026	-	-	5,026
Due to other funds	-	-	-	25,625	25,625
Deferred revenue	18,716	-	-	-	18,716
Total liabilities	18,716	5,026	17,827	25,625	67,194
Fund Balances					
Reserved for prepaid insurance policies	1,050	-	-	-	1,050
Unreserved	91,827	23,051	68,377	5,926	189,181
Total fund balances	92,877	23,051	68,377	5,926	190,231
Total liabilities and fund balances	<u>\$ 111,593</u>	<u>\$ 28,077</u>	<u>\$ 86,204</u>	<u>\$ 31,551</u>	<u>\$ 257,425</u>

Charter Township of Mount Morris

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2008

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Housing Commission	Building Permits	Drug Law Enforcement	Hughes 20 Debt Service	
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ 9,179	\$ 9,179
Interest income	2,629	-	-	-	2,629
Licenses and permits	-	65,755	-	-	65,755
Other	-	178	36,849	36	37,063
Total revenue	2,629	65,933	36,849	9,215	114,626
Expenditures					
Current:					
Public safety department	-	-	17,827	-	17,827
Public works department	4,667	264,615	-	-	269,282
Debt service	-	-	-	32,141	32,141
Total expenditures	4,667	264,615	17,827	32,141	319,250
Excess of Revenue Over (Under) Expenditures	(2,038)	(198,682)	19,022	(22,926)	(204,624)
Other Financing Sources - Transfers in	-	179,200	-	17,000	196,200
Net Change in Fund Balances	(2,038)	(19,482)	19,022	(5,926)	(8,424)
Fund Balances - Beginning of year	94,915	42,533	49,355	11,852	198,655
Fund Balances - End of year	<u>\$ 92,877</u>	<u>\$ 23,051</u>	<u>\$ 68,377</u>	<u>\$ 5,926</u>	<u>\$ 190,231</u>

Charter Township of Mount Morris

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds March 31, 2008

	Tax Collection Fund	Trust and Agency Fund	Total
Assets			
Cash and cash equivalents	\$ -	\$ 94,024	\$ 94,024
Receivables	26,859	-	26,859
Total assets	<u>\$ 26,859</u>	<u>\$ 94,024</u>	<u>\$ 120,883</u>
Liabilities			
Accrued and other liabilities	\$ 14,800	\$ 60,551	\$ 75,351
Due to other governmental units	12,059	33,473	45,532
Total liabilities	<u>\$ 26,859</u>	<u>\$ 94,024</u>	<u>\$ 120,883</u>

Charter Township of Mount Morris

Report to the Township Board

March 31, 2008



Plante & Moran, PLLC

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To the Township Board
Charter Township of Mount Morris

We have recently completed our audit of the basic financial statements of the Charter Township of Mount Morris (the "Township") for the year ended March 31, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communications, summary of significant audit adjustments, recommendations, and informational comments which impact the Township:

	<u>Page</u>
Report on Internal Control	I-3
Results of the Audit	4-6
Informational Comments	7-12

We are appreciative of the opportunity to be of service to the Charter Township of Mount Morris. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

Report on Internal Control

September 4, 2008

To the Township Board
Charter Township of Mt. Morris
5447 Bicentennial Drive
Mt. Morris, MI 48458

Dear Board Members:

Beginning with last year's audit, national audit standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Charter Township of Mount Morris financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this Report on Internal Control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In addition, we would like to commend the Township and its staff for the commitment put forth at year end in order to ensure that the Township received an unqualified opinion and that the financial statement amounts and disclosures were properly stated and supported. During the current fiscal year, the key position responsible for ensuring this process was completed was unfilled for the majority of the year. This vacancy caused the majority of the reconciliations and general ledger adjustments to be completed in a small time frame before the audit commenced for the year ending March 31, 2008. While the financial statement records were completed, this delay in the accounting process did lead to internal control deficiencies noted below during the fiscal year ending March 31, 2008.

In planning and performing our audit of the financial statements of the Charter Township of Mount Morris as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be a material weakness, as defined above.

Account Reconciliations and Journal Entry Posting

As noted above, the Township invested time during the audit process to ensure thorough account reconciliations were performed for capital assets, water and sewer accounts receivables, interfunds, and taxes, as well as a variety of general ledger accounts that had not been fully supported or properly reconciled during the year. This reconciliation process also included posting journal entries which were applicable to the period from July 2007 through February 2008 due to the finance director position being vacant for that same period. At the end of the process, the Township's significant general ledger accounts were properly supported and were in compliance with required accounting standards. This reconciliation process resulted in numerous journal entries throughout the audit process. We recommend that the Township continue to reconcile these accounts and maintain their accuracy throughout the year now that the finance director position has been filled.

Bank reconciliations

During the year, monthly bank reconciliations were prepared by the Deputy Treasurer for all the bank accounts maintained by the Township. However, the bank reconciliations were not reviewed timely from July 2007 to February 2008 due to the Finance Director position being vacant. We believe that the review function during the year at the Township is an essential internal control due to strong internal controls segregating the three duties that are associated with custody, authorization, and recordkeeping for assets. At the Township, the Deputy Treasurer position has the ability to gain custody to cash (in assisting with the closing of the cash receipts drawers), has authorization duties (review of cash receipts reports), and performs recordkeeping functions (preparing bank reconciliations and proposing journal entries to be posted). This review function of both journal entries and bank reconciliations by the Finance

September 4, 2008

Director allows the Township to function with strong internal controls. As of the report date, the review function is being performed on a timely basis by the Finance Director.

Additional Observations

We noted some additional items that should be considered in order to enhance internal controls;

- Due to the Finance Director position being vacant, the Township board did not receive budget to actual income statement reports from April of 2007 through March of 2008. This lack of reporting did not allow the Board to perform its oversight of actual spending versus budget spending for the majority of the fiscal year under audit.
- We observed that the Finance Director was allowed to post an unbalanced journal entry without an error being generated by the IT system. While the Township Finance Director is now reviewing the trial balance and posting journal entries monthly to ensure funds are in balance, the Township may want to review this technology control and determine if it is possible to be activated in the system to enhance controls.
- It was noted that the Township used the same percentage for nine months to allocate interest income to each fund. The Township should consider reviewing the monthly cash/investment balances of each of the Township's funds to ensure the interest allocation is done appropriately each month based on each fund's share of money in each account.
- The payroll department has the ability to prepare payroll, change pay rates, and add and delete employees. Though there are controls during the check signature process, the Township should consider establishing a policy that involves management review and/or segregation of duties regarding pay rate changes and employee additions and deletions.

This communication is intended solely for the information and use of management, the board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Joseph C. Heffernan



Kathryn J. Kercorian



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Report on the Results of the Audit Process

September 4, 2008

To the Township Board
Charter Township of Mt. Morris
5447 Bicentennial Drive
Mt. Morris, MI 48458

Dear Board Members:

We recently completed the audit of the basic financial statement of the Charter Township of Mount Morris for the year ended March 31, 2008. As a result of our audit, we have the following comments and recommendations for your review and consideration;

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 11, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Charter Township of Mount Morris. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 10, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of Mount Morris are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are related to the retirement and other post-employment benefits.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management related to the reconciliation of the water and sewer fund. The adjustments included an adjustment to the water and sewer receivable accounts, the water and sewer tap in fees, and the delinquent water and sewer receivable.

September 4, 2008

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 4, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to commencement of the audit. However, this discussion occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

This information is intended solely for the use of the Township Board and management of the Charter Township of Mount Morris and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC



Joseph C. Heffernan



Kathryn J. Kercorian

Charter Township of Mount Morris

Informational Comments

Financial Results

For the year ended March 31, 2008, net assets in the General Fund was approximately \$3,077,000 which compares favorably to your target minimum of \$1,582,000 (computed as 75 percent of property tax revenue plus 20 percent of expenditures). When all governmental funds are considered in total, the total fund balance of approximately \$3,770,000 falls just short of the target minimum of \$4,067,000 (using the same formula). This shortfall remains consistent with the prior year shortfall of the target. The Township has been able to maintain its fund balance level even in light of the continued stagnant revenue that you (and most other municipalities) are experiencing. In order to maintain this fund balance level, the Township has continued to control expenditures in order to weather this current municipal environment. We encourage you to read the complete management's discussion and analysis section of the financial statements for a more complete discussion of your finances.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e. the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441 and 4442). The lead bill of that package, House Bill 4440, establishes an 18 month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.

Charter Township of Mount Morris

Informational Comments (Continued)

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values – and even their individual property values – have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A – its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5% or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5% or inflation (up until the point that it re-connects with market values)

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value”, needs to be added to the Proposal A formula. In what some are calling a “super cap”, the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value – there would be NO annual increase. To date, a proposal to accomplish this change has not moved through the Legislature. A change of this nature would impact local government budgets.

- As part of the changes to the Single Business Tax last year and the introduction of the Michigan Business Tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e. such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements do not constitute a taxable addition.

Charter Township of Mount Morris

Informational Comments (Continued)

State Shared Revenue

The Governor released her proposal of the State's fiscal year 2009 budget (for the year ended September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the Legislature further debated the level of the revenue sharing funding, resulting in a compromise by the senate and house to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in FY 2007. This proposal was presented to the Governor on July 25, and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue sharing budget submitted to the Governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% change
Cities, Villages and Townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
total to CVT's	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75% (for cities, villages and townships), the impact will not be evenly distributed between all local units. Remember, the 2% increase is for the statutory portion only – not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2% of the FY 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily Townships) that now receive no statutory revenue sharing, total revenue sharing projected for FY 2009 will be identical to the amounts received in FY 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The Governor's proposed budget also included \$2.4 million to restore state revenue sharing payments for the six qualifying counties that will exhaust their revenue sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue sharing program. Prior to their elimination from the revenue sharing program in 2005, counties statewide received approximately \$182 million annually.

Charter Township of Mount Morris

Informational Comments (Continued)

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the Legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted – please remember to remind your state representatives of the importance of extending this legislation.

The table below details state shared revenue for the Township since 2004 broken out by statutory and constitutional portions.

<u>Township Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2004	\$ 893,489	\$ 1,544,762	\$ 2,438,251
2005	779,121	1,614,124	2,393,245
2006	723,539	1,621,610	2,345,149
2007	690,860	1,613,979	2,304,839
2008	658,019	1,622,206	2,280,225
2009 est	639,063	1,619,766	2,258,829

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Township has approximately \$639,000 at risk in its General Fund budget based on estimated 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue sharing line item.

Reminder - Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007 requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates

Charter Township of Mount Morris

Informational Comments (Continued)

Other Legislative Items

- As part of Michigan's new "Planning Enabling Act", many local governments will now be required to prepare an annual "capital improvements program". This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishing, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as "Public Act 20" which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the Bolt case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the Bolt decision on whether a charge is really a fee or a tax.

Charter Township of Mount Morris

Informational Comments (Continued)

Municipal Finance Act Revisions – REMINDER

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township’s year end March 31, 2008 and is good for one year thereafter. The Township should consider the need to file a qualifying statement for each of its component units.

Governmental Accounting Standards Board Statement Number 45

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions).

The rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The pronouncement is effective for the Township for the year ending March 31, 2010.

We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.